

# **LGIP OPERATIONS MANUAL**

(November, 2003)

## **INTRODUCTION**

The State Treasurer operates the State Pooled Investment Fund of which the Local Government Investment Pool (LGIP) is a part. The legislation providing for the establishment of the LGIP (Tennessee Code Annotated, Title 9, Chapter 4, Part 7) authorizes investment in the LGIP for local governments and other political subdivisions.

## **PURPOSE**

The LGIP is an investment mechanism authorized by the General Assembly which enables local governments and other political subdivisions of the state to participate with the state in providing maximum opportunities for the investment of public funds. By investing funds along with the state's cash portfolio, a participant can realize the same rate of earnings as that achieved by the Treasurer's investments. This means that cash managers who have previously been limited either by the relatively small amount of funds available for investment or the complexities of today's investment environment can take advantage of the volume and expertise of the State Treasurer's cash management program.

In recent years, it has been increasingly important for government at all levels to make the most of the revenue it collects. The legislature created the LGIP recognizing the role that a sound cash management and investment program can play in the pursuit of this objective.

## **POTENTIAL USES OF THE LGIP**

There is a wide variance in the methods incorporated by local governments for investing their funds, ranging from highly-sophisticated cash management programs to funds being left in non-interest bearing checking accounts. Whatever the case may be, the LGIP should be viewed as an investment option which can be useful in maximizing earnings. The funds are very liquid; there are no minimum amounts or lengths of time for investment with the exception of a 24-hour notice for withdrawals exceeding \$500,000. The funds are collateralized along with other state funds, so there is no need for the local cash manager to worry about whether the local bank has put up sufficient collateral or whether a repurchase agreement is properly secured.

Counties or municipalities which receive state shared taxes or other state funds may have these funds deposited directly to their LGIP account. Local governments wishing to exercise this option should complete an Authorization Agreement for Automatic Deposits and submit it to the Department of Finance and Administration. A sample of this form and instructions for completing it are included in Appendix C of this manual.

Because of the ease of access to the funds, the LGIP can prove useful to any cash manager regardless of the amount of excess cash available. The funds may be deposited until enough cash is accumulated to purchase another type of security or until market conditions improve to the point where increased earnings are available elsewhere.

## **INVESTMENT OBJECTIVES**

The Treasurer places funds in six different types of investments: Certificates of Deposit, Money Market Demand Deposit Accounts (MMDDAs), U.S. Treasuries, U.S. Agencies, Repurchase

Agreements, and Commercial Paper. By using all of these methods, 100% of the cash funds are being invested. Certificates of Deposit and MMDDAs are on deposit in nearly 150 Tennessee financial institutions. Since the LGIP funds are part of the invested state funds, these deposits will be invested in virtually every locality in Tennessee. Therefore, when you invest in the LGIP you are also continuing to invest in your own community.

Funds are available daily as needed, with the exception of withdrawals in excess of \$500,000 which require a one-day notice. Time frames for notification are discussed in the Deposits and Withdrawals sections. Securities are held for the portfolio which can be readily converted to cash to ensure the proper amount of liquidity to the fund.

## **CUSTODIAN**

All securities held by the fund which are eligible for Fed book entry are held at the State Trust account at the Federal Reserve. All commercial paper is held at a third party custodian in the State's name. All certificates of deposit are non-negotiable and are collateralized by securities pledged to the State held by a third party trustee custodian. Securities pledged under a repurchase agreement are held at the State Trust Account at the Federal Reserve.

## **ELIGIBILITY AND ENROLLMENT**

Any Tennessee municipality, county, school district, utility district, local government unit, or political subdivision is eligible to enroll in the Local Government Investment Pool. All that is required is for the governing body of the local government to authorize the financial officer charged with custody of the funds to participate in the LGIP. The financial officer so authorized becomes responsible for LGIP transactions.

Once the local government's financial officer becomes authorized to participate in the investment pool, an Application and Agreement to Participate in the State of Tennessee Local Government Investment Pool should be completed and filed with the LGIP. This application provides the information required to establish an account in the LGIP system and identifies the individuals who will transact business with the pool on behalf of the participating governmental unit. The application also serves as acknowledgment that the participant agrees to accept the terms and conditions of LGIP operations as established by the Treasurer in this operations manual. A sample of this form and instructions for completing it are included in Appendix A of this manual. The applicant should allow five working days for the completed application to be processed and an account established.

While more than one account is generally not necessary, some participants may find that more than one account is helpful. If a participant has a need for additional accounts, written notification should be sent to the LGIP office.

After an application has been received and processed, the participant will be advised, by letter, of the LGIP account number. All transactions must reference that account number in order to insure the proper completion of the transaction. The identity of the number should be restricted to authorized personnel.

Should any of the information furnished on the application change, written notice should be given to the LGIP office. The Information Change Form and the Instructions included in Appendix B of this manual may be used for this purpose. Failure to give prompt notification of changes may result in unnecessary delay in depositing, investing, or withdrawing funds. Any delay can result in lost earnings potential.

After an account is established, it will be valid as long as the participant remains active. Any account which maintains a zero balance for six consecutive months will be placed in inactive status.

## DEPOSITS

The LGIP is designed to serve local governments of all sizes; therefore, deposits may be made in any amount.

To make a deposit, the participant will direct their local bank to transfer the specified amount to the State Trust of Tennessee, transit routing number 0640-0026-6, account #70000. This may be accomplished either by the local bank directly or through a correspondent bank; however, the local bank should initiate funds transfer transactions. **You must advise your local bank to include an administrative message in the transfer that says “LGIP Deposit”.**

All deposits must be made by electronic funds transfer. This method of moving funds is utilized for two reasons. First, the use of these transfers significantly reduces the time required to send and receive a deposit. Second, such transfers eliminate the “float” which results from processing checks. Both of these factors increase the effectiveness and efficiency of your LGIP investment.

An individual transacting business with the pool must notify the LGIP office as soon as possible before making a deposit into an LGIP account. Failure to give prior notice of deposits to the LGIP office may result in the loss of the first day’s interest. Notice may be given by sending a completed LGIP Fax instruction Sheet (shown in Appendix D of this manual) to the LGIP office at 615-741-0755, by calling the LGIP office at 615-532-1163, or by entering the transaction via the Internet. Participants relaying instructions by telephone should be prepared to furnish the LGIP office with all information shown on the LGIP Telephone Instruction Sheet include in Appendix E of this manual.

Notice must be made before 11:00 a.m. Central Time on the date funds will be transferred to avoid losing interest for that day. You should determine the proper timing arrangements with your local bank to ensure that they receive timely notice to complete a transfer on the date you specify.

The LGIP office will be notified by the State Trust when the funds are received. Upon this notification, the participant’s account will be credited with the deposit. Funds will earn interest on the date of deposit if proper notice is given.

## WITHDRAWALS

There are no minimum or maximum dollar limits on the size of withdrawal transactions. A participant may withdraw funds up to the principal balance in its LGIP account. (Accrued interest not yet credited to the account balance is not available for withdrawal.) Prior to transferring funds, the LGIP office will verify that the participant’s account can cover the amount of the withdrawal. If not, the participant will be contacted for further instructions.

The procedure for withdrawing funds from the LGIP is similar to the method for depositing, only reverse. The LGIP office will direct the State Trust to transfer funds electronically to the participant’s local bank account. The bank accounts specified on the application form are the only accounts to which LGIP will transfer funds. Therefore, it is imperative you keep the LGIP office informed of your current banking relationships.

An individual transacting business with the pool must notify the LGIP office of the amount and the LGIP account from which the withdrawal is being made. Notice may be given by sending a

completed LGIP Fax Instruction Sheet (shown in Appendix D of this manual) to the LGIP office at 615-741-0755, by calling the LGIP office at 615-532-1163, or by entering the transaction via the Internet. Participants relaying instructions by telephone should be prepared to furnish the LGIP office with all information shown on the LGIP Telephone Instruction Sheet included in Appendix E of this manual.

In most cases, a withdrawal will be honored the same day it is requested if you notify the LGIP office prior to 10:00 a.m. Central Time. **However, withdrawals of \$500,000 or more will be honored the next working day after request.** Participants are encouraged to provide as much advance notice as possible for withdrawals exceeding \$500,000. Funds will not earn interest on the date of withdrawal.

Each participant should arrange with the local bank for any notification needed upon the receipt of the transfer from the State Trust. The local bank may request prior notification of incoming deposits. The participant is responsible for making this notification.

## **TRANSFERS**

**Between LGIP accounts** - If an entity wishes to transfer funds from its LGIP account to another LGIP account, an individual must notify the LGIP office of the request to transfer. The individual acting for the entity should provide the LGIP account number from which funds will be withdrawn as well as the LGIP account number to which funds will be deposited. Also, provide the name of the entity, the caller's name, the amount of the transfer as well as the date the transfer transaction is to occur. Transfer notification may be made by fax, telephone, or by entering the transaction via the Internet as explained in the sections on Deposits and Withdrawals.

If an LGIP entity wishes to transfer funds to another LGIP entity, only the entity withdrawing funds from its account can initiate the transaction.

## **YIELD CALCULATIONS**

As of January 1, 2002, the LGIP yield is the total portfolio yield of the state pooled investment fund (SPIF).

## **EARNINGS AND FEES**

Earnings for LGIP participants are calculated and accrued monthly. Earnings are distributed by multiplying the daily balance of each LGIP account by the total portfolio yield of the State Pooled Investment Fund for the month being calculated, less an administrative charge (currently 5 basis points or .05 %), and dividing the result by 365. Each day's earnings are summed to determine the monthly income to be posted to the LGIP account.

The administrative fees are reviewed periodically to ascertain that the fees are commensurate with the costs associated with managing the fund. Fees are set at a rate which will recover costs only and are not designed as a profit center for the fund managers or the State.

## **MONTHLY STATEMENTS AND YEAR-END REPORTS**

The LGIP office will mail a monthly statement to each participant at the address specified on the account application showing the account transactions and interest earnings. The interest

information on your statement will pertain to the current month for which interest is earned. If any errors are noted on the statement, please notify the LGIP office immediately.

Quarterly, a newsletter will be published and distributed which will contain rate information, an investment breakdown, and items that the LGIP staff wanted to bring to participants attention. Participants will be notified of changes in the Investment Policy via the newsletter. The Investment Policy will be available at our web address (see Visit Us on the Web!). Any participant which does not have access to the web can obtain a hard copy version by notifying the LGIP office by phone or in writing.

Beginning in Fiscal Year 1998, GASB 31 requires certain funds to be reported at current fair value. The State Pooled Investment Fund is considered a 2a-7 like account (SEC designation) and is only required to report at amortized cost. As a participant, you must report your position in the pool to be in compliance. Because the fund is basically valued at a constant dollar, your position in the fund is your account balance for any reporting period. Any deviation from a constant dollar will be reported to you for your reporting needs.

### **PRICING OF SECURITIES AND COLLATERAL**

All securities which are held for collateral against funds in state depositories, as well as actively traded securities within the portfolio, are priced regularly. The Treasury Department maintains an investment tracking system which receives pricing from IDS, a nationally recognized pricing service.

### **ADVISORY BOARD**

All Investment Policy objectives and operations of the LGIP are reviewed by the State Funding Board which is comprised of the Governor, Treasurer, Commissioner of F & A, Secretary of State, and the Comptroller.

### **ARBITRAGE**

Please consult with your financial advisor concerning the suitability of the LGIP for deposit of bond proceeds.

### **VISIT US ON THE WEB!**

The LGIP, which is a part of the State Pooled Investment Fund (SPIF), can be located on the Internet at [www.treasury.state.tn.us/lgip](http://www.treasury.state.tn.us/lgip). Much useful information is available including the most recent version of the Investment Policy of the SPIF as well as detailed portfolio listings (description, CUSIP, yield, maturity, and fair value) which are updated quarterly. All information contained on this site is available in hard copy form and can be requested by notifying the LGIP office by phone or by writing. Any comments or suggestions on information provided (or not provided) at this site would be appreciated.

All transaction activity, as well as account inquiries, can be conducted on a secure website. For more information concerning this electronic banking feature, contact the LGIP office.

## **GENERAL INFORMATION**

Participant applications and requests for information or forms should be directed to:

Local Government Investment Pool  
Treasury Department  
P.O. Box 8785  
Nashville, TN 37219-8785  
(615) 532-1163

The Treasurer reserves the right to modify these procedures as necessary to ensure the efficient operations of the LGIP. By making application to participate in the pool, the local government agrees to abide by the terms and conditions as established by the Treasurer.

The local government official agrees to immediately notify the LGIP office in the event an overpayment is made to the participant's account. Repayment of any overpayment must be made on the day the error is discovered, if possible, and in no event can it be later than the next business day.

The Treasurer assumes no liability for failure of the participant's local bank to accurately execute transactions. The Treasurer will, however, assume responsibility for correcting errors made by the State in executing LGIP transactions.

The Treasurer nor the State guarantees monies deposited into the LGIP.

LGIP accounts must have a positive balance during a six-month period to remain active. Zero balance accounts will be inactivated. There is no maximum dollar limit set for individual LGIP accounts.